

Review paper

CONCEPTUAL FRAMEWORK FOR UNDERSTANDING THE INFLUENCE OF EFFICIENT PROTECTION OF PRIVATE PROPERTY RIGHTS ON ECONOMIC EFFICIENCY

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Abstract. *Property rights represent one of the most significant structural determiners of efficiency in economic system. Regarding this fact, their content influences the institutional, legal and distributive sphere, their effect on economic performances in national economy is complex and substantial. Specific characteristics related to social and economic characteristics of a right holder, making adequate incentives, more complete evaluation, their individuality, exclusivity and free transferability, combinatory effect, specialisation, productivity, social compactness and organizational complexity, caused private property rights to influence considerable economic potential. Mechanisms for achieving that refer to enabling trade, boosting market and competition forces, reduction of transaction costs and providing adequate motivation for economic agents. Imperfection of political process and the resulting political institutions represent the main causes of inefficient protection and enforcement of private property rights. Specific historical experiences in developing different national economies distinctly confirm their indisputable characteristics in making national economy to work efficiently and in providing high level of long term economic development and growth.*

Key Words: *private property rights, formal institutions, economic efficiency, imperfect political institutions, economic history.*

INTRODUCTION

Changes and efforts directed towards establishing market economies in former socialistic countries, attempts of building up an adequate institutional structure and performing institutional changes directed towards the establishment of functional market economy in the rest of developing countries represent the most significant characteristic

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of contemporary economic history. Divergent results of these countries, as well as their relative stagnation in comparison with the developed market economies or too slow process of convergency, require the reconsideration of mainstream theoretical positions, that were used as and that were actually the explanation background for the developing policy. Traditional approaches and economic growth modeling, based on neoclassical, recourse based interpretation of economic growth, failed in giving adequate answers for drafting and implementing the appropriate strategies. All these models and approaches could not give substantial answer to the fundamental questions, referring to the economic growth determination, i.e. what the fundamental causes for economic growth are? Factors used in these models, such as innovations, economy size, education, capital accumulation and so on are not the growth causes. They are growth [35, p. 2].

In order to remove the disadvantages and interpret the economic reality in a more suitable way, a specific approach has been developed for interpreting economic dynamic within New institutional economy. This approach refers to the Theory of property rights which emphasises the necessary conditions for achieving economic efficiency. Property rights represent unique *epitheon ornans* of the whole institutional structure and make the core of the economic process, that results in economic growth. This theory emphasizes that the rights, not the resources, are owned by economic agents [2, p. 17]. Because of this the rights are the subject of exchange on the market and the base for making investments and organizing production. For that reason, if we wish to understand the economic process properly and the causes of economic growth we have to redirect our attention towards the property rights institutions, not towards the physical subject of property rights. Property rights and the institutions in general are considered to be so called “deep determiners of economic growth” and the most powerful explanation and fundamental cause of economic growth in Western Europe [7, p. 140].

Clearly defined and efficiently enforced property rights do not only directly influence the quality of exchange and the volume of transactions in national economy, but can be observed as a unique mechanism for transferring various characteristics of economic, social and political system on economic efficiency, such as competition, financial institutions, the rule of law, quality of bureaucracy or a trust. For that reason, pivotal aim of this work is identification of basic dimensions related to property rights, as well as mechanisms for transmitting the influences of property rights on economic efficiency. Beside it, the aim is to identify the influences coming from institutions of political system which are crucial in determining their clarity and features of their implementation. Thus, we can say that the elementary premise of our paper refers to the proposition that clearly defined and consistently enforced property rights are representing the decisive requirement for efficient functioning of national economy.

Qualitative methodology research has been used in our research. It has been modified according to the specific subject and the aim of the paper. Constructional elements of methodology approach refer to the usage of comparative and historical method. This implies the analysis of the results of the numerous empiric and theoretic studies which were conducted in order to discover and explain complex linkages between the property rights and economic efficiency.

The work consists of five parts, beside the introduction and the conclusion. The first part is devoted to the analysis of the nature and basic dimensions characterizing the property rights institutions. The second part refers to the identification of specific traits of private property rights that make them superior property regime in terms of efficiency

compared to the other alternatives. In the third part the focus is on the identification of the main mechanisms through which the private property rights influence economic performance. Specific influences of political institutions in determining the clarity and effective protection property rights protection are the subject of analysis in the fourth part. In the last, fifth section particular historical experiences are stated that were a milestone in the development of certain national economies. The conclusion gives reflections on the summary results of the previous parts, and points to the possible directions of future researches.

1. MULTIDIMENSIONAL NATURE OF PRIVATE PROPERTY RIGHTS

Considering the fact that the rules of property rights are among the most significant structural determiners of economic behaviour and performances [26, p. 143], it is necessary to indicate the complex nature of this concept. In that way, the multiple influences they produce on economic efficiency are indirectly emphasized.

Bearing in mind the legal origin of property rights concept, as well as the fact that the prevailing volume of contemporary institutional structure is determined by legal framework, legal perspective is being solicited as unavoidable in determining the substance of this institutional category. In that sense, property rights refer to the right to use goods – *usus*, the right to earn the income from the goods – *usus fructus*, the right of suffering the consequences, positive or negative, of the change in value of the goods – *abusus*, as well as the right on alienation of the goods, i.e. *ius abutendi* [20, p. 11]. In other words, the set of property rights refers to the exclusive right of an owner to use the property, to make an income and to administer the property, as well as to transfer control onto another person [15, p. 86]. It is evident, according to the given specification of property rights, that generally speaking property does not only imply „the right“ over a certain resource, but the whole set of regulatory rights carried through the legal means. Understood in this way, property rights as well as the rules related to property aim to set up the allocation of resources towards the most productive uses [4, pp. 51-53]. Possible problems in each of these segments may cause huge consequences on economic performances in national economy.

The analysis of the property rights from the perspective of institutional economics indicates that they represent the rights of the individual against certain goods and with it related economically, legally or socially restricted possibility to consume certain property in any way, i.e. directly through consumption or indirectly through exchange [14, p. 99]. For that reason, the property rights can be understood as the rights including both formal regulations (enactments and legislatives) and characteristics of their enforcement, as well as social norms and the attitudes of members of a certain community with respect to what constitutes desirable social model [13]. The full effect of the property rights on the economic growth and uninhibited market exchange can be expected only if all the elements of a social context are fully compliant with the requirements of a particular property rights regime. Although being obvious, they do not depend only upon the government-run institutional system, but upon the customs, reciprocity and the spontaneous restrictions as well [27, p. 52].

Another specific approach in observing property rights highlights their functional character and economic content at the organizational level. In this regard, property

represents a powerful mean seen as a participation in decision-making process or a basis for participating in formulating and enforcement of decisions. Therefore, having the ownership of a resource means that one have his interests defined and protected as a property, which gives him the right to participate in economic decision-making [39, p. 3]. In circumstances of inadequately specified or poorly implemented rights, the very process (individual or organizational) of decision-making would be burdened with inefficiencies and consequently poor economic performances.

If we emphasize the distributive aspect as a criterion in property rights content analysis, we could say that the property is a substantial indicator for a bundle of relations between the real and the potential income flow, or for different levels of consumption between the holders of the rights and those who are not [40, p. 224]. This is a libertarian and Smithian interpretation of the content and implications of the property rights system, which emphasizes the difference between the real– caused by government activities, and potential– which would be determined by market forces, distribution of particular property rights regime. State influence is not only seen in how clear and in what size the property rights will be defined, but also in additional influence on tax policy or regulatory activities of its organizations [9, p. 44]. For that reason, efficient economic process demands coordination in all the activities governed by the state, so that property rights could be fully protected. In those circumstances is to be expected that exchange and investments achieve high levels.

Judging by the previous analysis of specific dimensions in property rights, though only partially, it is obvious that they exert strong influence on economic efficiency. Regarding pretty complex content and different dimensions of property rights, there are apparently more breaking points through which they could exercise restrictive influence on economic activity.

2. SUPREMACY OF PRIVATE PROPERTY RIGHTS FROM INSTITUTIONAL PERSPECTIVE

The question of the relationship of property rights and economic efficiency involves a review of those essential features which make private property rights have significant advantages in stimulating economic activity against alternative forms of ownership. This is particularly evident if we look back to the emergence of private property rights. In fact, only with the change of ownership toward private property has been made a significant step in the development and adaptation of new production methods and means that are used in production. The general conclusion to be reached is that the incentives through which private ownership influences the behavior of economic agents, are the source of the rapid progress in material production, beginning from the Neolithic era period up to modern civilization [25].

Various inducements and their effects on allocative efficiency are the result of social and economic characteristics of property right holders. It is caused by the fact that state and private owners usually react on incentives from various fields. In that sense, according to fundamental characteristics of political system, the state mainly reacts to broader political and social factors, whereas private owners activities are primarily led by market forces [2, p. 22].

Another reason why private property is seen as a superior mode of ownership within the institutional economics consists in the fact that individuals appreciate more carefully

some goods if they are holding it. Private property enables responsible protection and motivates the owner to make it useful, in the most profitable way. Private property is an essential component in market mechanism functioning, because it increases profitability, sale and usefulness of capital usage [23, p. 22].

Within the theory of property rights is the dominant view that an effective system of property rights means that it should have three important features. In fact, what is needed is to be an individual, to be freely transferable and to be exclusive [16; 20; 25]. It seems obvious that, in regards to all the three dimensions (especially to the first and the third), private property represents the preferable pattern in terms of efficiency.

The following cause for transformation toward private property and its predominance in economic system in contemporary economies, refers to the combination of productivity increase, i.e. specialization and social compactness. In relations to that, it can be added that systems based on high level of compactness have lower significance in modern economies, whereas modern economies in relations to its historical alternatives have become far more productive. The causes of higher productivity in contemporary economies are dual in nature. They are based on technological changes and specialization [10]. An especially significant aspect of specialization is its subverting effect on compactness. This makes additional pressure on the efficiency of the system, which is based on collective (political) decision-making.

With regard to the social compactness, it should be noted that this aspect relates to the issue of connectivity or "closeness" that exists among the members of a certain community or a group. Thereat, the familiarity or connection may be biological, but geographic and social as well. If the compactness among them exists, cultural norms are of high significance, interaction among people can be identified, and its effects are well predictable, because all the future and past results of interaction are estimated and visible. For example, a small community, both geographically and by population, whose residents remain most of their life within it, is the environment in which collective decision-making makes sense and could be highly efficient. But in the west economies developed after the medieval era, the production was on a large scale for unknown customers on market transcending a relatively narrow biological, geographical and social entities. This has undermined the efficiency of collective decision-making. Market exchange became responsive to market signals largely coming from personal goals of impersonal economic agents on the market. It had enormous consequences on system efficiency. Systems based on collective decision making, following the principles of non-market resources allocation, would not be capable of solving the problem of efficient resource usage in the same way as the systems that are relying on the prices which are reflecting the objective facts that are commonly known [10, pp. 661- 662].

Organizational complexity, as a special factor flavoring economic system organization predominately based on private property is also connected with specialization. Namely, higher specialization leads to emphasized organizational complexity, whereas coordinate problems, appearing in such conditions, are demanding a system capable of providing continuous coordination of activities in a satisfactory manner. In modern economies, the most adequate system that provides it, is the price system. In order for this system to work, it must have the support of the social and legal structures that are providing trust and support to the enforcement of transactions. Legal institutions, defining private property and dictating the exchange, have to be very operative so that organizational complexity, as intrinsic specialization consequence, could lead to higher productivity [10, p. 664-

665]. Problems in organizational structure, appearing as complexity consequence, can be surpassed in the most adequate manner, within private property right regime, because only within this property regime an adequate functioning of market mechanism and its efficiency can be achieved.

The interaction between distortion of social compactness, specialization (productivity) and organisational complexity caused essential and very dynamic property transformations at the end of XX century. Specialization has played a prevalent role in this relation. Namely, by decreasing compactness and increasing productivity and organizational complexity, it enabled and caused transformation of contemporary economic systems towards regimes dominantly based on private property. Some authors, for example Demsetz, emphasize that specialization promotes development of complex and dependant economy, which in order to be efficient, must be based on a dominant degree of private property over the resources [10, p. 671].

In spite of the fact that the institutions of private property rights are labeled without an attribute „social“, they are very valid and significant in social manner. The reason for their existence is in a good way the result of their convenience in discovering social values and this value judgements are used as basis for formulating possible solutions for the lack of resources. In this context, we could note that even in a hypothetical society where work is observed as a desired activity, and therefore no need for incentives to work exists, it would be necessary to evaluate various alternative outputs which can be produced. This means that it would be needed to precisely and clearly define property rights as prerequisite for efficient resource allocation [11, p. 18].

Finally, it is necessary to emphasize one more argument in favour of private ownership. Namely, if the state activities are directed towards protection and property rights enforcement, at least one party in transaction will be interested to help the state in implementing these rights. In that sense, institutional frame based on regime or predominant regime of private property rights will mainly result in efficient transactions, because there are no incentives by the state not to respect property rights, and at the same time there is immanent concern of each private party that its activities will be additionally monitored and evaluated by the independent instance in case of abuse. On the other hand, deviations from efficient transactions are more likely if one party in transaction appears from public domain, whereas possible inefficiencies may be multiple – from asset stripping to infringing the private property rights.

3. MAIN MECHANISMS BY WHICH PRIVATE PROPERTY RIGHTS INFLUENCE ECONOMIC GROWTH

Institutional theory emphasizes that availability and productivity of resources is determined by institutional and political characteristics of environment. Although there are certain incompatibilities regarding qualities of the institutions dominantly determining economic efficiency, there is still consensus regarding the fact that property rights have a strong impact on economic growth. Based upon that restrictions in exchange and use of resources should be minimal [21, p. 206].

Property rights, as a theoretic concept, have deep historical roots in philosophy, which is generally the basic characteristic of economic science. Namely, the very concept of economic logics is based on the property contemplation, although in theoretic constructions (especially in economic sense) it has been pretty indirectly considered. Hellenic and Medieval philosophers, such as *Aristotel* and *Thomas Aquinas*, emphasized variety of property

characteristics, especially the feature of enabling freedom for the owners. Central function of the property is inspiring people to invest care and effort in the things that are in their ownership. Classical economic philosophers and economists in the XVII and XVIII century, out of which *John Lock* and *Jeremy Bentham* are especially important, were particularly focused on this, according to them, central function of the ownership, and stressed it as the central object in considering the property right matters. They pointed out that individuals would be motivated in making effort, investments and careful management because of ownership. In consequence of this behaviour the ownership will encourage wealth production. This point of view is equal to one of the basic postulates in the property rights theory. It consists of the claim that behavioural patterns of individuals, thanks to the adequately determined incentives through private ownership, will influence the property rights distribution towards the most productive uses [18, p. 61]. The outcome of such production is not only useful for the individuals, but for the society as a whole.

Contemporary economic theory indicates an additional aspect of property. Due to the fact that the property identifies who owns what, trade is made possible. In turn, trade encourages specialization by awarding an individual's effort with enlarging its personal ownership, creating something *Smith* regarded as „the wealth of nation“ [38, p. 209]. Besides the philosophical, property rights have deep sociological origins as well. In that sense, according to the premise emphasized by *Max Weber*, ascetical working ethic (so-called „calvinismus“), rational political and social order, reliable (i.e. clear) and transparent ownership system are the necessary and the most significant aspects that should be satisfied in order to make development based on capitalistic-market system possible [41, p. 106].

Additional channels of property rights influences on economic efficacy are realised through complicated array of economic and social mechanisms. By creating and stimulating the possibility for saving goods value property rights stimulate responsible behaviour contributing to efficiency enhancement. They increase motivation for the increase in value of goods and through that fact spur the investments. They do not only provide direct incentives for investments, but also the property holders are in position to use the owned object as collateral in the lending process. Finally, property rights extend market size in a way that they enable and motivate a larger number of investors to compete for the ownership of goods [3, p. 105].

Property rights quality, primarily reflected through the rule of law and property rights protection, influences the efficiency of the economic system in the following ways. On the first level, secure property rights reduce uncertainty, and thus encourage investment activity of companies. On the other hand, property rights have huge impact on the long-term investments into physical and human capital. If the property rights of investments and its expected returns are perceived as sufficiently secure, there is a growth of long term technologically intensive investments in capital with higher additional value. In the opposite case, the economy has to deal with work-intensive, short term investments. If the low transaction costs are present in the economy the transfer of ownership from less efficient to more efficient economic subjects happens. In this circumstances economic activities based on newly structured property rights structure lead, *ceteris paribus*, to greater motivation for productive behaviour and to the decrease of rent-seeking the problem [14]. In contrast, insecure property rights often lead to inefficient allocation of resources. Uncertainty of the property rights is caused by personal connections of individuals and businesses with the ruling elite and these are used as substitutes for efficient "impersonal" formal rules. The result is that the economic success is determined by personal ties, relative power of

influence and corruption within the politicized networks. In such conditions, economic efficiency may have a minor role, making the system inefficient in the economic and social way [37, p. 392].

Transactional costs could be observed as a separate mechanism in explaining the property rights influence on economic efficiency. In that sense, an inefficient property rights system leads to large transaction costs in national economy due to the lack of the valuable characteristics of goods in public domain. As a consequence of inefficient property rights, possibilities for expansion of the labour division and further specialization are limited. This aspect is particularly evident if there are divergent community ideologies, which has a negative reflection on the level of transactional costs, i.e. on the weaker property rights protection. In addition, inefficient property rights, and the related high transaction costs, increase the rent seeking problem. This type of inefficiency is especially obvious in the developing and transition countries [14, pp. 149-150].

Summa summarum, if we observe the property rights influence on individual and organisational level, we may say that they speed up exchange and production: they influence in a positive way the decision-making approach to the resources usage; they optimize time horizon; they specify the allowed use of resources; they define transferability and direct the net benefit and direct appropriation of net benefits [24].

4. THE DEPENDENCE OF THE EFFECTIVE PROTECTION AND ENFORCEMENT OF PRIVATE PROPERTY RIGHTS ON THE QUALITY OF POLITICAL INSTITUTIONS

Regarding the fact that in every social system property represents the central connection between the individual and the state [1, p. 25], the system of political institutions represents an unavoidable element in establishing and providing the efficiency of the property rights system. In order for this to be achieved, the most serious problem the state faces is creating unambiguous property rights. Only such rules could provide maximum freedom to the economic agents when entering into contracts which are in line with their wishes. Once property rights are clear and protected the market process and its indigenous forces of supply and demand get the power to generate high social and economic values [22, p. 116].

The fundamental level in which it is possible to recognize the importance of political institutions is related to the fact that the political rules precede economic. Property rights and individual contracts are specified through the legislative framework and enforced in the process of making political and administrative decisions. However, the problem with establishing the efficient property rights system results in the fact that the structure of economic interests in society influences the political structure. Considering that, we may say that the state of the given property rights structure and the characteristics of its implementation will be consistent with the specific set of political rules and its implementation [31, p. 48]. However, since the equilibrium does not imply at the same time efficiency. There are two possible solutions. One, although less likely, is the replacement of inefficient political institutions by efficient ones. The other solution is the attempt to modify them in an incremental or significant way. The reasons for the inefficiency of the economic system come from the fact that political factors impede the institutionalization of property rights in a way that competitive markets can not function effectively [12, p. 200].

Property rights are not an immutable category. They represent an individual's effort in protecting their property, but also an attempt of other economic subjects to take over in

whole or just in part some elements of the others' property rights. Because of this they have to be observed as a function of informal and formal private protection and especially public protection. The efficiency of later primarily depends upon the work of police and courts [5, p. 4]. Without a strong, accountable and committed state, it would not be possible to establish a functional property regime.

Provided that all the instances, starting from the individuals included in exchange over the competitiveness in economic environment till court protection efficiency, function in a satisfactory manner, the efficiency of the property rights system would be ensured. However, economic markets, both in the past and present, are imperfect in numerous cases and characterized by high transaction costs. In such conditions, "spontaneous" and efficient property rights distribution is very difficult to achieve which directly reduces the economic potential. The situation is further aggravated by the fact that political markets are even less frequent than economic ones, if they exist at all. The reasons for that are multiple. Voters ignorance, incomplete information, predominant ideologic stereotypes (that fortify subjective models, developed by the individuals in order to explain the environment and make choices) could additionally perpetuate inefficiencies on political markets. In that case property rights will remain inappropriately protected and enforced [32].

State relevance is especially reflected in the altered circumstances of economic activities, in relation to the previous epochs. This is particularly apparent in relation to the changed role and influence of informal institutions. Namely, we could speak about effective property rights protection without formal institutional framework in the previous period, contemporary conditions do not make it possible. The development of the capital markets and large production systems with a large share of fixed costs influenced the evolution of political order, based on force, because more complex impersonal forms of exchange appeared. Personal acquaintances, voluntary restrictions in business and ostracism were not very effective and supportive mechanisms for property rights exchange, as it was the case in the past. However, the benefits which could be realized, if it comes to opportunistic behavior solely based on informal constraints, are sufficiently large in modern economies. This is why formal institutional structure became a necessary mechanism in protecting property rights of individuals and organisations [31].

It is particularly important to point out the complexity of the process of establishing an effective political system and proper functioning of political markets. Namely, mechanisms of measuring and executing transactions on political markets are far less efficient in comparison with those in economic markets. The subject of the exchange between voters and political parties are the promises for votes. In addition, the motivation of voters to be informed is low, because it is not very likely in their perception that their voice, separately observed, is important. Additionally, the whole set of complex influences and interdependences causes always present uncertainty. The mechanism of the implementation of the political agreements is accompanied by a number of difficulties. Competition is far less effective than in economic markets. Regarding the fact that political system is the one that defines and enforces property rights, the logical outcome is that efficient economic markets are certainly not the rule [28].

Another important issue is the specific role and the importance of ideology and the state in maintaining and developing the institutions that particularly determine the domain of ownership. With the growth of exchange between economic agents, it becomes increasingly more specialized and complex. In those circumstances successful contracting requires the support of a third party. Strong political institutions are necessary because

their functioning comprises legal domain. However, states vary widely in the way they define property rights, individuals can see the political institutions more or less legitimate, depending on their ideology. The ideological component is especially significant in the context of an efficient property rights system for the following reasons. Namely, in case of high level of ideological consensus, aspiration towards opportunistic behaviour is minimal. In such conditions, property rights are protected in the best way. In the opposite situation, with low consensus, contract costs would very likely be higher and much larger effort would be needed in transacting. In that sense, ideological consensus might constitute an effective support to formal rules if not, at least partly, substitute for them [17, p. 115].

The relationship between political institutions and property rights is a result of a specific functional relationship that occurs between them. *In concerto*, according to the one of the premises of insitutional theory, there is no unique Pereto-optimal resources allocation, but only the specific results of structure of power or structure of rights. The resource allocation could be specified through a following functional causality.

Widely observed, allocation of resources is the function of offer and demand on the market, whereby the two of the mentioned functions are the function of the *de facto* power. Power is, at the same time, the property rights function. Further derived relation reflects the fact that the property rights are the function of law. Law is the function of legislative and executive authority. Finally, executive and legislative authority are regarded as a function of a competition over the control of the state and its institutions, in order to protect certain interests in relation to the other interests [39, p. 6]. Previous description of multiple, circular and causal relation creates a possibility to notice the difficulty authorities (excutive, legislative, courtal) are faced with, in order to establish an efficient system of property rights protection and enforcement. In societies with merely economic interests, the problem of property rights would be formulated and solved in a relatively simple manner. However, the complex nature of political process and impacts of different interests are those preventing the discovery of rather simple solutions for this issue. The fact which cannot be overlooked is that property rights allocation reflects the structure of power in society.¹ Because of that, negotiations amog the transaction participants are always directed by innitial power distribution. For that very reason, it is necessary that those who establish the formal rules recognize these hazards and model the whole legislative framework in accordance with them.

Having in mind the significance of political institutions in context of determining property rights efficiency, we have to identify the general political framework within the efficient property rights protection is possible. In that sense we could assert that democratic policies² are a prerequisite for the efficient functioning of decentralized market economies, with clearly defined and implied property rights. This framework is the closest aproximation of adaptively efficient institutional structure. For that reason, it

¹ There is an interesting interpretation which refers to the distribution of power and its reflections on property structure, especially public ownership. Namely, in some cases there is no reason, in terms of efficiency, for defining property over certain goods as public. However, public property is frequently the result of interest of those who represent authority and those who support it [19, p. 130].

² Political regime where property rights are most efficiently protected is the rule of law. Though autocracies may ensure the economic growth in short term, the rule of law is an unavoidable mechanism in long term perspective. [29].

is an essential part of development policy to create those rules which are central for establishing and protecting effective property rights. However, the problem about that is the knowledge imperfectness about how we should create those policies. An additional complicating circumstance is the research in this domain. It is principally concentrated on the USA and the Western market economies. On the other hand, in the places where those needs are most pronounced –in third world countries and former socialist economies, this aspect is insufficiently explored [29, pp. 366-367].

The previous analysis can be summarized with the constation that in the regime with positive transaction costs, legal frame becomes one of the main factors in determining economic performances. In the situation characterized by large transaction costs, contracts between the two sides are not likely to occur. In that case the costs are often higher than benefits of different property rights distribution [8, pp. 250-251]. The state, i.e. system of political institutions is doubly responsible in that process. It determines adequate definition of property rights, as well as their consistent and impartial implementation. If this is not the case, the economy will function below the level of production frontiers.

6. THE ROLE OF PRIVATE PROPERTY RIGHTS IN ECONOMIC DEVELOPMENT THROUGH HISTORY

It would be wrong to claim that the economic system predominantly based on private property is superior if we take the experiences of socialistic economies and their failure to provide adequate level of efficiency and welfare. The data go much further back in time. Two important civilisations that had left large inheritance to the contemporary world, i.e. The Greek states-cities and the Roman Empire were based on private property. Those were the first two civilisations with institutionally recognized private property, despite the fact that some fragmentary inscriptions indicate the existence of private property forms much earlier [10, p. 667]. Naturally, the existence of private property rights is an insufficient condition for reaching efficiency, and demands certain wider institutional backup. The special role belongs to continuity and stability of the economic and political system. The mentioned features were the crucial characteristics of helenic states and Roman society for a pretty long period of time, not only at the peak of their development.

Historical archive provides a variety of evidence for the claim that property rights need to be adequately protected and enforced. Their influence on economic performances is especially reflected in situations where they are not adequately specified. As an example of harmfulness of unclearly and inadequately defined property rights, we may state the feudal system. For a long period of time this system was not able at all to provide adequate incentives for efficient resource allocation. The reason for that was the manner in which the property rights structure was defined. A blurred system of shared responsibility and with it vague distribution of different aspects of property rights between the monarchs, aristocrats and peasants, generated a tremendous inefficiency and long term stagnation of the economic system. In manorial system (based on the relationship between the servant and the master), country folk, lords and the king had the property over the same land, although their rights were differently defined and often intertwined. In such a complicated system, property responsibilities were obviously ambiguously defined. This had disastrous consequences on economic efficiency, not to mention immanent social disasters it invokes. Only with their radical redefinition and greater specification in terms of rights to

use, transfer or exclude others from use, came to their complete contribution to economic development, especially during the Industrial revolution.

The specificity of the property rights system does not only reflect the necessity to be established gradually in time, but also significant time is needed until it begins to produce a full effect on economic activity. Medieval development of England distinctly confirms the fact that it takes a long period of time to establish an efficient system of private property protection. Namely, the appearance of *Magna Carta*³ in 1215 caused a relatively secure protection of property rights. This was especially the truth for those times. However, it took additional four centuries for it to reach political verification and more solid legal basis, which occurred with the Parliamentarism triumph in 1689. Unlike that, the political voluntarism and pretty insecure political and legal environment often ended with expropriation of property rights by the monarch, especially over financial resources. *Magna Carta* established institutional basis that produced political democracy and conditions for long term economic growth. This form was later reproduced and extended, with certain modifications, in British colonies in North America [19, p. 130].

Another illustrative historical example, representing the great role of private property, refers to the USA. Namely, one of the highest USA achievements, in the early period of development, was adopting the special law in May, 1875. The law strongly promoted private property rights and this was of indispensable significance for further USA development [36, p. 147]. Although being supplemented and adapted several times during XX century, it has basically remained the same for a long period. From the present point of view, evolution and adaption of the above mentioned institutions will last for two centuries, but it is exactly they that made USA economic system superior in technological and economic manner during the whole XX century. Contrary to the experience with private property rights in the USA, there was strong opposition to property rights allocation toward private ownership in the late Middle Ages in France and Spain, which caused slower economic growth in these countries [24, p. 234].

Besides the hesitations or impossibility for adequate property rights definition, various historical experiences distinctly indicate the destructive consequences of violating the established property rights. The very representative example is the confiscation of property rights that took place in France in the XIV century. Namely, starting from 1307 onwards *Philip IV* significantly assessed tax on the means of the knights templares (*Ordre du Temple*), in order to solve serious financial problems. Five years later, pope *Clement V*, exposed to high pressure from the French king, was obliged to dissolve the order and transfer part of the money to Maltesian knights. The influence of these measures on the economy was very significant for this time, since these knights established the first known international bank system. It was based on strong military relations between the members of the order [6, p. 4560]. This kind of expropriation, like the future violations of property rules, caused stagnation in financial system development in France in comparison to the other European economies, especially the Dutch. If there is unequivocal,

³ It is interesting to say that *Magna Carta* was actually bought. Namely, the parliament rights to enact the laws, to investigate the cases of abuse and advise in national politics domain were practically bought from *Edward I and Edward III*. This money was borrowed to them so they could more easily wage the Hundred Years' War. New military technologies consisting of crossbow, bow and arrow, spear and gunpowder highly increased the war expenses. As a result, the British monarchs were obliged to change certain legislative rules, so they could have sufficient money to finance the war. Thereat, their throne depended on the outcome of the war. [19].

empirically and theoretically confirmed connection between the financial system and economic growth, consequences in terms of missed opportunities can be gleaned.

As a contemporary example that is often cited in terms of contrary conclusions to the assertion of the new institutional economics and property rights theory, i.e. their emphasise on the importance of private property rights, some authors cite the experiences of China. The reason for this consists in highlighting the fact that this country has specific ownership structure of the land resources, but also a significant number of companies in the non-private ownership regime. However, China's experience may be observed as additional argument or an excellent example, favouring the property rights theory and private property structure of economy. Namely, at the end of the 1970s, when the process of strong economic growth started, fundamental changes occurred in the institutional structure of Chinese economy. It provided individual instead of collective agricultural land cultivation, whereas economic subjects were given a possibility to make decentralized instead of centralized decisions about resource allocation [42, p. 49]. It is obvious that this kind of institutional changes influenced the fundamental *de facto* change in the property rights system and basis changes in incentives, regardless of *de jure* property status of land or economic organisations. Besides that, new tendencies in Chinese economy confirm the fact that *de jure* property structure changes towards the dominant private property. To demonstrate this, in 2000 around 80% of public and state companies in provinces and cities were privatized, whereas the rest were open to various cooperative relations with the private sector [43, p. 242]. The difficulties in the financial system were probably an additional factor that pushed privatization further. Namely, the amount of non-performing loans (NPL) in China represented huge burden for future economic growth. Although this phenomena is still present in Chinese economy and creates significant risks for the stability of the whole economy, privatization reduced the possible collapse of the financial system.

7. CONCLUSION

In the paper are presented the basic dimensions and mechanisms through which the property rights influence the efficiency of national economy. The conclusion could be summed up noting that the growth and development of the economic system are required as a necessary condition for clear determination and consistent enforcement of private property rights. Regarding the multiple aspects of establishing an effective and efficient property rights system, there is a decisive need to coordinate other institutional segments and public policies with those in property sphere. This includes especially the observation and investigation of the distributive, legal and wider institutional dependences.

The advantages of the private property rights, regarding efficiency, are based on historical factors of social and economic system development, referring to the decrease of social compactness, increase of specialisation and higher organisational complexity. Besides that, other inherent characteristics of private property rights— in first line providing appropriate incentives for economic agents, are in the center of understanding all of the other growth factors, such as entrepreneurship or technical innovations.

Efficient property rights enable and stimulate trade, which influences market expansion and the volume of investments. Trade and market expansion influence further division of labour and specialisation, which increases productivity and through that higher rate of economic growth and wealth creation. On the other hand, clearly defined property relations

and a stable institutional system reduce transaction costs, which increases transaction scope. Thanks to private property rights strong material incentives and a freedom of economic agents are provided. These are prerequisites for the increase of investments.

An efficient property rights system is more the exception than the rule. The sources of such a state in this domain have to be explained. Most of them come from the political system. Inefficiencies are primarily the consequence of different principles prevailing in political and economical spheres. It refers, beside other things, to the complexity of the aims by political actors and simplicity of goals by economic agents. Political institutions based on the rule of the law are *conditio sine qua non* of the efficient market economy and its undisputable growth and development.

The analysis of the various historical experiences confirms practical significance of property rights in the development of certain countries. The growth and high economic performance of the USA and the UK in the last century and a half could be largely interpreted as the consequence of the established private property rights system. The failures of France and Spain to establish credible public obligations of private property protection undoubtedly influenced relative stagnation of these systems. Flexibility and continuous development of contemporary Chinese economy, in terms of structure and property rights enforcement and protection, represent the pivotal part of the explanation of its economic progress in the last forty years.

The work also represents a solid basis for future research in several ways. There is a necessity for more complete comprehension and analysis of the influences from political sphere. Through empirical evaluation and analysis of the property rights influences, more detailed explanations about the relative power of mechanisms effecting economic efficiency could be provided. Finally, studying the specific historical experiences in a large number of countries, uncovered by existing research, opens the possibility for explaining why and how weak property rights determine the stagnation of some countries in the long term.

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KONCEPTUALNI OKVIR ZA RAZUMEVANJE UTICAJA EFIKASNE ZAŠTITE PRIVATNIH VLASNIČKIH PRAVA NA EKONOMSKU EFIKASNOST

Vlasnička prava predstavljaju jednu od najznačajnijih strukturnih determinanti efikasnosti ekonomskog sistema. S obzirom da sadržinom zadiru u ukupnu institucionalnu, pravnu i distributivnu sferu, njihov uticaj na ekonomske performanse u nacionalnoj ekonomiji je kompleksan i veliki. Specifična svojstva povezana sa socijalnim i ekonomskim karakteristikama nosilaca prava, generisanjem adekvatnijih podsticaja, potpunijim vrednovanjem, kao i individualnost, ekskluzivnost i slobodna transferabilnost, kombinovano dejstvo specijalizacije, produktivnosti, socijalne kompaktnosti i organizacione kompleksnosti, učinili su da privatna vlasnička prava generišu značajan ekonomski potencijal. Mehanizmi putem kojih se to ostvaruje se odnose na omogućavanje trgovine, povećanje obima tržišta i konkurencije, redukciju transakcionih troškova i obezbeđivanje adekvatne motivacije kod ekonomskih agenata. Nesavršenosti političkog procesa i iz njega rezultirajućih političkih institucija predstavljaju glavne uzroke neefikasne zaštite i sprovođenja vlasničkih prava. Specifična istorijska iskustva u razvoju pojedinih nacionalnih ekonomija na upečatljiv način potvrđuju njihova nesumljiva svojstva koja stimulišu propulzivnost nacionalne ekonomije i obezbeđuju pretpostavke dinamične ekonomske aktivnosti.

Ključne reči: *vlasnička prava, formalne institucije, ekonomska efikasnost, političke institucije, ekonomska istorija.*